



CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

The St. Vincent's Medical Center
Member of Ascension Health, a Subsidiary
of Ascension Health Alliance
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

The St. Vincent's Medical Center

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
The St. Vincent's Medical Center
Bridgeport, Connecticut

We have audited the accompanying consolidated balance sheets of The St. Vincent's Medical Center and Subsidiaries (the "Medical Center") as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The St. Vincent's College, Inc. (the "College"), a wholly-owned subsidiary, which statements reflect total assets of 3% and 2% as of September 30, 2012 and 2011, respectively, and revenues of 2% and 1%, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Medical Center at September 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

January 28, 2013

The St. Vincent's Medical Center

Consolidated Balance Sheets
(Dollars in Thousands)

	September 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,995	\$ 6,932
Interest in investments held by Ascension Health Alliance	18,023	1,463
Accounts receivable, less allowances for uncollectible accounts (\$26,426 in 2012 and \$28,642 in 2011)	54,446	47,626
Advances to parent and affiliated entities, net	4,804	8,469
Inventories and other	8,778	8,850
Total current assets	91,046	73,340
Interest in investments held by Ascension Health Alliance	320,899	89,464
Board-designated investments and assets limited as to use:		
Interest in investments held by Ascension Health Alliance	—	184,050
Temporarily restricted	308	277
Temporarily restricted interest in The St. Vincent's Medical Center Foundation, Inc.	12,461	11,259
Permanently restricted	68	68
Permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	11,201	10,066
Total board-designated investments and assets limited as to use	24,038	205,720
Unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	312	312
Property and equipment:		
Land and improvements	7,832	7,808
Buildings and equipment	415,923	393,394
Construction in progress	193	7,870
Less accumulated depreciation	(219,030)	(198,169)
Total property and equipment, net	204,918	210,903
Other assets	18,903	12,899
Total assets	\$ 660,116	\$ 592,638

	September 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 61,492	\$ 50,154
Current portion of long-term debt	998	989
Current portion of note payable, other	1,075	—
Current portion of note payable, affiliate	438	438
Estimated third-party payor settlements	12,000	10,883
Total current liabilities	76,003	62,464
Noncurrent liabilities:		
Long-term debt	46,911	46,906
Pension and other postretirement liabilities	11,256	11,907
Self-insurance liabilities	3,237	2,963
Note payable, other	1,075	—
Note payable, affiliate	10,315	10,753
Other	7,352	10,140
Total noncurrent liabilities	80,146	82,669
Total liabilities	156,149	145,133
Net assets:		
Unrestricted	479,929	425,835
Temporarily restricted	12,769	11,536
Permanently restricted	11,269	10,134
Total net assets	503,967	447,505

Total liabilities and net assets	<u>\$ 660,116</u>	<u>\$ 592,638</u>
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The accompanying notes are an integral part of the consolidated financial statements.

The St. Vincent's Medical Center

Consolidated Statements of Operations and Changes in Net Assets
(Dollars in Thousands)

	Year Ended September 30	
	2012	2011
Operating revenues:		
Net patient service revenue	\$ 442,092	\$ 400,189
Other revenue	17,580	11,968
Net assets released from restrictions for operations	1,281	1,200
Total operating revenues	460,953	413,357
Operating expenses:		
Salaries and wages	189,479	170,718
Employee benefits	45,369	43,075
Purchased services	36,738	32,005
Professional fees	11,045	8,082
Supplies	55,529	59,384
Insurance	5,639	5,166
Bad debts	29,349	33,855
Interest	2,149	2,562
Depreciation and amortization	22,972	22,954
Other	26,133	23,271
Total operating expenses before curtailment gain and impairment loss, net	424,402	401,072
Income from operations before curtailment gain and impairment loss, net	36,551	12,285
Curtailment gain and impairment loss, net	24,163	—
Income from operations	60,714	12,285
Non-operating gains:		
Investment returns, net	24,513	7,962
Other	31	81
Total non-operating gains, net	24,544	8,043
Excess of revenues and gains over expenses and losses	85,258	20,328

Continued on next page.

The St. Vincent's Medical Center

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended September 30	
	2012	2011
Unrestricted net assets:		
Excess of revenues and gains over expenses and losses	\$ 85,258	\$ 20,328
Transfers (to) from System, parent, and affiliated entities, net	(12,848)	20,098
Net assets released from restrictions for property acquisitions	3,869	8,092
Pension and other post-retirement liability adjustments	(22,185)	4,533
Increase in unrestricted net assets	54,094	53,051
Temporarily restricted net assets:		
Contributions	5,127	9,304
Investment returns	21	18
Net assets released from restrictions	(5,150)	(9,292)
Change in temporarily restricted interest in The St. Vincent's Medical Center Foundation, Inc.	1,202	(5,025)
Other	33	—
Increase (decrease) in temporarily restricted net assets	1,233	(4,995)
Permanently restricted net assets:		
Change in permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	1,135	46
Increase in net assets	56,462	48,102
Net assets, beginning	447,505	399,403
Net assets, ending	\$ 503,967	\$ 447,505

The accompanying notes are an integral part of the consolidated financial statements.

The St. Vincent's Medical Center
Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30	
	2012	2011
Cash flows from operating activities		
Increase in net assets	\$ 56,462	\$ 48,102
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	22,972	22,954
Loss on sale of property and equipment	136	669
Pension and other post-retirement liability adjustments	22,185	(4,533)
Restricted contributions and net investment returns	(5,148)	(9,322)
Net change in unrealized (gains) losses on investments	(4,585)	9,237
Increase in interest in The St. Vincent's Medical Center Foundation, Inc.	(2,337)	4,979
Transfers to (from) System, parent, and affiliated entities, net	12,848	(20,098)
(Increase) decrease in:		
Investments, including interest in investments held by Ascension Health Alliance	(59,391)	(19,351)
Accounts receivable, net	(6,820)	(1,900)
Advances to parent and affiliated entities, net	3,665	(3,121)
Inventories and other assets	72	(75)
Increase (decrease) in:		
Accounts payable and accrued liabilities	11,338	7,858
Estimated third-party payor settlements	1,117	(1,336)
Pension and other postretirement liabilities	(24,971)	5,291
Other noncurrent liabilities	(2,514)	2,195
Net cash provided by operating activities	25,029	41,549
Cash flows from investing activities		
Property and equipment additions, net	(15,825)	(28,363)
Proceeds from sale of property and equipment	—	6
Increase in assets limited as to use – temporarily restricted	(31)	(30)
Increase in other assets	(7,447)	(1,364)
Net cash used in investing activities	(23,303)	(29,751)

The St. Vincent's Medical Center

Consolidated Statements of Cash Flows (continued)
(Dollars in Thousands)

	Year Ended September 30	
	2012	2011
Cash flows from financing activities		
Transfers to System, parent, and affiliated entities, net	\$ (10,537)	\$ (7,677)
Restricted contributions and net investment income	5,148	9,322
Issuance of note payable	2,150	—
Repayments of long-term debt and notes payable, affiliate	(424)	(12,839)
Net cash used in financing activities	(3,663)	(11,194)
Net (decrease) increase in cash and cash equivalents	(1,937)	604
Cash and cash equivalents, beginning	6,932	6,328
Cash and cash equivalents, ending	<u>\$ 4,995</u>	<u>\$ 6,932</u>

The accompanying notes are an integral part of the consolidated financial statements.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements

September 30, 2012

(Dollars in Thousands)

1. Organization and Mission

Organizational Structure

The St. Vincent's Medical Center (Medical Center), a subsidiary of St. Vincent's Health Services Corporation (SVHS), is a member of Ascension Health. In December 2011, Ascension Health Alliance became the sole corporate member and parent organization of Ascension Health, a Catholic, national health system, consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 21 of the United States and the District of Columbia. In addition to serving as the sole corporate member of Ascension Health, Ascension Health Alliance serves as the member or shareholder of various other subsidiaries. Ascension Health Alliance, its subsidiaries, and the Health Ministries are referred to collectively, from time to time hereafter, as the System.

Ascension Health Alliance is sponsored by Ascension Health Ministries, a Public Juridic Person. The Participating Entities of Ascension Health Ministries are the Daughters of Charity of St. Vincent de Paul in the United States, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, and the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province.

The Medical Center is a nonprofit hospital system, consisting of an acute care hospital located in Bridgeport, Connecticut and a behavioral health hospital located in Westport, Connecticut. The Medical Center provides inpatient, outpatient, and emergency care services for residents of the Greater Bridgeport area and its neighboring towns. Admitting physicians are primarily practitioners in the local area. Subsidiaries of the Medical Center include the St. Vincent's Multispecialty Group, Inc. (Multispecialty Group) and the St. Vincent's College, Inc. (College). The Multispecialty Group, a nonprofit subsidiary of the Medical Center, is a consolidated group of primary care and specialty physicians and allied health professionals providing services to the Medical Center and the community. The College, a nonprofit subsidiary of the Medical Center, is an institution of higher learning that offers associate degrees in nursing, radiography, medical assisting, and health care management, as well as certificate programs in multi-skilled assisting, health care management, and health promotion. The Medical Center is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

The accompanying consolidated financial statements include the accounts of the Medical Center, the Multispecialty Group, and the College. All significant intercompany transactions have been eliminated in consolidation.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing, and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay.

The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care of persons living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately \$5,060 and \$3,553 for the years ended September 30, 2012 and 2011, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Medical Center are consolidated, and all significant inter-entity transactions have been eliminated in consolidation.

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments classified as other than current assets and current liabilities are disclosed in the Fair Value Measurements note.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Interest in Investments Held by Ascension Health Alliance, Investments, and Investment Return

At September 30, 2011, and prior to April 2012, the Medical Center held a significant portion of its investments through the Health System Depository (HSD), an investment pool of funds in which the System and a limited number of nonprofit health care providers participated. The HSD investments were managed primarily by external investment managers within established investment guidelines. The value of the Medical Center's investment in the HSD represented the Medical Center's pro rata share of the HSD's funds held for participants. At September 30, 2011, the Medical Center's investment in the HSD was \$274,977, reflected in assets limited as to use and other current and long term investments in the accompanying consolidated balance sheet.

During the year ended September 30, 2012, the CHIMCO Alpha Fund, LLC (Alpha Fund) was created to hold primarily all investments previously held through the HSD. Catholic Healthcare Investment Management Company (CHIMCO), a wholly owned subsidiary of Ascension Health Alliance, acts as manager and serves as the principal investment advisor for the Alpha Fund within established investment guidelines, including socially responsible investment guidelines. In April 2012, a significant portion of the HSD's funds held for participants was transferred to the Alpha Fund, in which Ascension Health Alliance has an investment interest, as a member of the Alpha Fund. Ascension Health Alliance invests funds in the Alpha Fund on behalf of the Medical Center. As of September 30, 2012, the Medical Center has an interest in investments held by Ascension Health Alliance, which is reflected in the accompanying consolidated balance sheet, and represents the Medical Center's pro rata share of Ascension Health Alliance's investment interest in the Alpha Fund.

The Medical Center also invests in equities and fixed income securities which are locally managed. All of these funds are held by The St. Vincent's Medical Center Foundation, Inc. (Foundation), where the Medical Center has a beneficial interest in the Foundation's assets.

The Medical Center reports its interest in investments held by Ascension Health Alliance in the accompanying September 30, 2012 consolidated balance sheet as a current or long term asset, based on liquidity needs as directed by the Medical Center. The Medical Center reports its other investments, including Foundation investments, in the accompanying consolidated balance sheets based upon the long or short term nature of the investments and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Medical Center.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The Alpha Fund's and the HSD's investments which are required to be recorded at fair value are classified as trading securities, and include pooled short term investment funds; U.S. government, state, municipal, and agency obligations; asset backed securities; corporate and foreign fixed income maturities; and equity securities, including private equity securities. The Alpha Fund's and HSD's investments also include alternative investments, including investments in real assets, hedge funds, private equity funds, commodity funds, and private credit funds, which are valued based on the net asset value of the investments. In addition, the Alpha Fund participates, and the HSD participated, in securities lending transactions whereby a portion of its investments is loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns are comprised of dividends, interest, and gains and losses on the Medical Center's investments, as well as the Medical Center's return on its interest in investments held by Ascension Health Alliance, and are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets, unless the return is restricted by donor or law.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value utilizing first-in, first-out (FIFO), or a methodology that closely approximates FIFO.

Interest in The St. Vincent's Medical Center Foundation, Inc.

The interest in the Foundation represents the Medical Center's interest in the net assets of the Foundation. This investment is accounted for in accordance with Accounting Standards Codification (ASC) 958-20, *Beneficiary's Recognition of Interest in a Financially Interrelated Recipient Entity*.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Intangible assets are included in other noncurrent assets on the accompanying consolidated balance sheets and are comprised of the following:

	September 30	
	2012	2011
Capitalized computer software costs, net	\$ 11,363	\$ 7,095
Goodwill	1,554	375
Total intangible assets, net	<u>\$ 12,917</u>	<u>\$ 7,470</u>

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the years ended September 30, 2012 and 2011 was \$1,443 and \$1,329, respectively.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift.

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in years ended September 30, 2012 and 2011 was \$21,529 and \$21,625, respectively.

Estimated useful lives by asset category are as follows: land improvements — 10 to 15 years; buildings — 15 to 40 years; and equipment — 5 to 20 years. Interest costs incurred as part of related construction are capitalized during the period of construction. No interest was capitalized during 2012 or 2011.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$2,801 as of September 30, 2012.

The Medical Center recognizes the fair value of asset retirement obligations, including conditional asset retirement obligations, if the fair value can be reasonably estimated, in the period in which the liability is incurred. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement, as well as contractually required asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. Subsequent to initial recognition, accretion expense is recognized until the asset retirement liability is estimated to be settled.

The Medical Center's most significant asset retirement obligation relates to required future asbestos remediation of physical plant and buildings constructed prior to 1975. Asset retirement obligations of \$164 and \$392 as of September 30, 2012 and 2011, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations.

During 2012 and 2011, \$228 and \$17, respectively, of retirement obligations were incurred and settled.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowments funds, are used in accordance with the donor's wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Contributions, Bequests, and Grants

Unrestricted contributions, bequests, and grants are included in operating revenues when pledged or received, and donor restricted items are reflected as additions to net asset balances. Restricted expenditures are transferred to the unrestricted net asset balance if used for capital additions, reported as other operating revenue if used for operating purposes, or reported as an offset to revenue deductions if used for charity care.

Performance Indicator

The performance indicator is the excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include, transfers to or from System, parent, and affiliated entities, net assets released from restrictions for property acquisitions, and pension and other post-retirement liability adjustments.

Operating and Non-operating Activities

The Medical Center's primary mission is to meet the health care needs in its market area through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Medical Center's primary mission are considered to be non-operating, consisting primarily of gains on invested funds, losses on disposal of property and equipment, unrestricted gifts and bequests, and gains or losses on other investments.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Net Patient Service Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts

The following table summarizes net revenue from services to patients:

	Year Ended September 30	
	2012	2011
Gross patient service revenue	\$1,178,334	\$1,025,622
Deductions:		
Allowances	720,912	616,408
Charity care	15,330	9,025
Net patient service revenue	\$ 442,092	\$ 400,189

Patient accounts receivable and revenue are recorded when patient services are performed. Amounts received from most payors are different from established billing rates of the Medical Center and these differences are accounted for as allowances.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided excluding the provision for bad debt expense, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenues related to prior periods increased net patient service revenue by approximately \$8,194 and \$1,638 for the years ended September 30, 2012 and 2011, respectively.

During 2012, approximately 39% of net patient service revenue was received under the Medicare program and 12% under various state Medicaid programs, 30% from contracts with HMOs and PPOs, 9% from contracts with commercial carriers, and 10% from other payors. During 2011,

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

approximately 39% of net patient service revenue was received under the Medicare program and 13% under the various state Medicaid programs, 31% from contracts with HMOs and PPOs, 9% from contracts with commercial carriers, and 8% from other payors.

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of net accounts receivable at September 30, 2012 include Medicare (42%) and various states' Medicaid programs (14%), HMOs and PPOs (17%), commercial carriers (10%), and self-pay and other (17%). Significant concentrations of net accounts receivable at September 30, 2011 include Medicare (39%) and various states' Medicaid programs (17%), HMOs and PPOs (13%), commercial carriers (11%), and self-pay and other (20%).

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Medical Center follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Medical Center's policies.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Medical Center accounts for HITECH incentive payments as a gain contingency. Income from Medicare incentive payments is recognized as revenue after the Medical Center has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended. The Medical Center recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$4,057 for the year ended September 30, 2012, are included in total operating revenue in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Medical Center's compliance with the meaningful use criteria is subject to audit by the federal government.

Curtailment Gain and Impairment Loss

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimates of fair value.

During the year ended September 30, 2012, the Medical Center recorded total curtailment gain and impairment loss, net, of \$24,163. This amount was comprised primarily of pension curtailment gains of \$24,506, as discussed in the pension plans note, partially offset by long-lived asset impairments of \$343.

Health Ministry Income Taxes

The Medical Center, the Multispecialty Group, and the College are tax-exempt organizations under Internal Revenue Code Section 501(c) (3) and their related income is exempt from federal income tax under Section 501(a). The Medical Center accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Regulatory Compliance

The Medical Center is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Medical Center. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Medical Center.

Reclassifications

Certain reclassifications were made to the 2011 consolidated financial statements to conform to the 2012 presentation.

Subsequent Events

The Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2012, the Medical Center evaluated subsequent events through January 28, 2013, representing the date on which the financial statements were available to be issued. There were no subsequent events that required recognition or disclosure in the financial statements.

Adoption of New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued its accounting standards update (ASU) entitled *Improving Disclosures about Fair Value Measurements* in ASU No. 2010-06. This standards update clarified certain fair value measurement guidance and required that additional fair value measurement disclosures be made. The Medical Center adopted a portion of this guidance during the fiscal year ended September 30, 2010, and the remaining requirements as of October 1, 2011, as required. The disclosure updates adopted as of October 1, 2011, result in the provision of additional detail within the reconciliation of beginning and ending balances for assets and liabilities measured at fair value, whose fair value inputs are based on significant unobservable inputs (i.e., Level 3 assets and liabilities). These additional

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

disclosure requirements are provided in the Fair Value Measurements note. The adoption of this guidance did not have a material impact on the Medical Center's financial statements for the year ended September 30, 2012.

In August 2010, the FASB issued its accounting standards update entitled *Measuring Charity Care for Disclosure* in ASU No. 2010-23. The provisions of this update require health care entities to disclose charity care based on cost measurements, defined as the direct and indirect costs of providing the charity care. The Medical Center adopted this guidance on October 1, 2011; however, as the Medical Center has historically used cost-based measures for the calculation and disclosure of its charity care, the adoption of this guidance did not have a material impact on the Medical Center's consolidated financial statements for the year ended September 30, 2012.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)*. This accounting standards update provides clarifications to certain existing fair value measurement guidance, and includes updated guidance for certain fair value measurement principles and disclosures. The Medical Center will adopt this guidance as of October 1, 2013. The adoption of this guidance is not expected to have a material impact on the Medical Center's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Medical Center plans to adopt the provisions of this accounting standards update as of and for the year ended September 30, 2013, and retrospectively apply the presentation requirements to all periods presented.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, Assets Limited as to Use, and Other Long-term Investments

At September 30, 2012, the Medical Center's investments are comprised of its interest in investments held by Ascension Health Alliance and certain other investments, such as those investments held and managed by the Foundation. At September 30, 2011, the Medical Center's investments were comprised of the Medical Center's pro rata share of the HSD's funds held for participants and certain other investments, such as those investments held and managed by the Foundation. Assets limited as to use primarily include investments restricted by donors. The Medical Center's cash, cash equivalents, interest in investments held by Ascension Health Alliance, and assets limited as to use and other long-term investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	September 30	
	2012	2011
Cash and cash equivalents	\$ 4,995	\$ 6,932
Interest in investments held by Ascension Health Alliance, current	18,023	1,463
Interest in investments held by Ascension Health Alliance	320,899	89,464
Interest in investments held by Ascension Health Alliance - Board-designated	—	184,050
Assets limited as to use:		
Temporarily and permanently restricted	376	345
Total	<u>\$ 344,293</u>	<u>\$ 282,254</u>

In 2012, the Medical Center undesignated interest in investments held by Ascension Health Alliance, which were designated to be use for future capital expenditures and debt repayments.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, Assets Limited as to Use, and Other Long-term Investments (continued)

The composition of cash and investments classified as cash and cash equivalents, interest in investments held by Ascension Health Alliance, and pro rata share of HSD funds held for participants is summarized as follows:

	September 30	
	2012	2011
Cash and cash equivalents	\$ 5,371	\$ 7,277
Interest in investments held by Ascension Health Alliance	338,922	—
Pro rata share of HSD funds held for participants	—	274,977
	<u>\$ 344,293</u>	<u>\$ 282,254</u>

As of September 30, 2012 and 2011, the composition of total Alpha Fund and HSD investments is as follows:

	2012	2011
Cash, cash equivalents and short-term investments	5.7%	2.6%
U.S. government obligations	28.1	35.4
Asset backed securities	9.2	15.6
Corporate and foreign fixed income maturities	9.1	9.3
Private equity and other investments	47.9	37.1
	<u>100.0%</u>	<u>100.0%</u>

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, Assets Limited as to Use, and Other Long-term Investments (continued)

As of September 30, 2012 and 2011, the composition of total Foundation investments is as follows:

	2012	2011
Cash, cash equivalents, and short-term investments	6.5%	20.1%
U.S. government obligations	5.0	5.9
Asset backed securities	4.0	2.9
Corporate and foreign fixed income maturities	6.1	5.3
Private equity and other investments	78.4	65.8
	100.0%	100.0%

In order to evaluate the realizable value of its investments, the Medical Center's management evaluates the available facts and circumstances. This evaluation requires significant judgment, including determinations involving the estimation of the outcome of future events, and also consists of an accumulation of factors about general market conditions which reflect prospects for the economy as a whole, the specific industries, and/or the specific securities under consideration. These factors are considered by management in determining whether the security still has earnings potential in the near future, and whether the security has an anticipated recovery in market value.

Investment return recognized by the Medical Center is summarized as follows:

	Year Ended September 30	
	2012	2011
Return on interest in investments held by Ascension Health Alliance and investment return in HSD	\$ 24,513	\$ 7,962
Interest and dividends	21	18
Total investment returns	\$ 24,534	\$ 7,980
Investment return included in non-operating gains	\$ 24,513	\$ 7,962
Increase in restricted net assets	21	18
Total investment returns	\$ 24,534	\$ 7,980

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements

The Medical Center categorizes for disclosure purposes, assets and liabilities measured at fair value in the financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Medical Center's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Medical Center follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

- Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.
- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments in active markets or exchanges or prices quoted for identical or similar investments in markets that are not active. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

As of September 30, 2012 and 2011, the Level 2 and Level 3 assets and liabilities utilize the following valuation techniques and inputs:

Cash and cash equivalents and short-term investments

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating, interest rate and par value. Cash and cash equivalents and additional short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

Guaranteed pooled fund

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying the annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

U.S. government, state, municipal and agency obligations

The fair value of investments in U.S. government, state, municipal and agency obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate and foreign fixed income maturities

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

Asset-backed securities

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Equity securities

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Private equity and other investments

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on the Medical Center's estimates and assumptions in absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

Alternative investments consist of hedge funds, private equity funds, and real estate partnerships. Alternative investments are valued using net asset values as determined by external investment managers.

Derivative assets and liabilities

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-Term Investments notes, the Medical Center has an investment in the Alpha Fund, HSD, and certain other investments such as those investments held and managed by the Foundation. As of September 30, 2012, 20%, 47%, and 33% of the total Alpha Fund and HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while 0%, 100%, and 0% of total Alpha Fund and HSD liabilities that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively. As of September 30, 2011, 21%, 77% and 2% of total HSD assets that were measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while, 2%, 59% and 39% of total HSD liabilities that were measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

As of September 30, 2012, 64%, 18% and 18% of the total assets held by the Foundation on behalf of the Medical Center that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

As of September 30, 2011, 67%, 18% and 15% of the total assets held by the Foundation on behalf of the Medical Center that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2012	2011
State of Connecticut Health and Educational Facilities Authority (CHEFA), Variable Rate Demand Revenue Bonds (Ascension Health Credit Group), Series 1999B payable through November 2029; subject to a fixed rate of interest through February 1, 2017; interest (1.55% at September 30, 2012) set at prevailing market rates	\$ 21,147	\$ 22,009
Intercompany debt with Ascension Health Alliance, payable in installments through November 2051; interest (3.6% and 3.7% at September 30, 2012 and 2011, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	15,592	15,719
Intercompany debt with Ascension Health Alliance, payable in installments from November 2030 through November 2047; interest (3.6% and 3.7% at September 30, 2012 and 2011, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	11,170	10,167
	47,909	47,895
Less current portion of long-term debt	998	989
	\$ 46,911	\$ 46,906

Scheduled principal repayments of long-term debt are as follows:

Year ending September 30:	
2013	\$ 998
2014	1,112
2015	1,186
2016	1,153
2017	1,263
Thereafter	42,197
Total	\$ 47,909

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt (continued)

Certain members of Ascension Health Alliance formed the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, senior designated affiliate, or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, Ascension Health Alliance may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including repayment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health Alliance with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation. The Medical Center is a senior obligated group member under the terms of the Senior MTI.

In November 1999, the Credit Group issued \$2,365,725 of Hospital Revenue Bonds Series 1999 Bonds (1999 Bonds) through eleven different issuing authorities in nine states. The Bonds of each series were issued pursuant to separate Bond Indentures, each dated as of November 1, 1999, between the related issuer of such series and the Bond Trustee for each series. The proceeds of each series of bonds were loaned by the related Issuer to Ascension Health (or, solely with respect to the Connecticut Bonds, the Connecticut Borrowers, (the Medical Center and Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke)) pursuant to separate Loan Agreements, each dated as of November 1, 1999, between the related issuer of such series and Ascension Health (or, solely with respect to the Connecticut Bonds, a Connecticut Borrower). The proceeds of the Connecticut bonds were loaned to the Medical Center and Hall-Brooke and were used to refund the CHEFA Variable Rate Demand Revenue Bonds (Charity Obligated Group) St. Vincent's Medical Center/Hall-Brooke Issue, Series 1999B.

Ascension Health, in its capacity of managing the system's debt program, has committed to making loans to the Medical Center through November 15, 2029 in amounts ranging from \$187 to \$626 annually, with repayment to occur in annual installments ranging from \$110 to \$1,278, from November 2030 through November 2047.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt (continued)

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, Ascension Health Alliance may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with Ascension Health Alliance, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation. The Medical Center is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper, and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 39 years.

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt (continued)

the Senior and Subordinate Credit Group's obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member.

The carrying amounts of intercompany debt with Ascension Health Alliance and other debt approximate fair value based on a portfolio market valuation provided by a third party.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of September 30, 2012, the Senior Credit Group has a line of credit of \$1,000,000 which may be used as a source of funding for unremarketed variable rate debt (including commercial paper) or for general corporate purposes, toward which bank commitments totaling \$1,000,000 extended to November 9, 2014. As of September 30, 2012 and 2011, there were no borrowings under the line of credit.

As of September 30, 2012, the Subordinate Credit Group has a \$50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$50,000 extends to December 27, 2012. As of September 30, 2012, \$26,607 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds of Senior and Subordinate Credit Group members is \$4,451,285, which represents 39% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at September 30, 2012.

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt which can be as short as 30 days or as long as 27 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees and other commitments at September 30, 2012 is approximately \$203,000.

Associated with the transfer of inpatient operations on October 1, 2008, the Medical Center assumed the principal and interest obligations of Hall-Brooke's outstanding debt with CHEFA (Note 12).

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt (continued)

On April 1, 2011, the Medical Center participated with several other subsidiaries of SVHS in redeeming its intercompany debt with Ascension as part of a \$20,000 debt redemption. The Medical Center's portion of the debt redemption was \$12,258.

During the years ended September 30, 2012 and 2011, interest paid was approximately \$2,149 and \$2,562, respectively. There was no capitalized interest in 2012 or 2011.

6. Notes Payable, Other

In 2012, the Medical Center purchased a physician practice. The purchase included a promissory note for a portion of the purchase price. The note is payable in two equal installment payments of \$1,075, due January 1, 2013 and 2014.

7. Permanently Restricted Endowments

The Medical Center's endowments consist of funds established for a variety of purposes. These endowments consist of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowment funds are held by the Foundation and investment decisions are made by the Foundation, with the Medical Center determining the amount of endowment assets to be appropriated for spending.

The Medical Center's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable, (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Medical Center in a manner

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Permanently Restricted Endowments (continued)

consistent with the standard for expenditure as proscribed by Connecticut UPMIFA. In accordance with Connecticut UPMIFA, the Medical Center considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Medical Center and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Medical Center.
- (7) The investment policies of the Foundation.

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Connecticut UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$11 and \$490 as of September 30, 2012 and 2011, respectively.

Return Objectives and Risk Parameters

The Foundation, in consultation with the Medical Center's Board of Trustees, has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specified period. Under these policies, endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs. Actual results in any given year may vary from this amount. The Medical Center expects its endowment funds, over time, to provide an average rate of return to exceed inflation and investment fees, by at least 2% to 5%, dependent on investment mix. Actual returns in any given year may vary from this amount.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Permanently Restricted Endowments (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Medical Center relies on the Foundation's total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Medical Center has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Medical Center considers the long-term expected return on its endowment. Accordingly, over the long-term, the Medical Center expects the current spending policy to allow its endowment to grow at the average rate of inflation and investment fees annually. This is consistent with the Medical Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as, to provide additional real growth through new gifts and investment return.

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning	\$ (490)	\$ 903	\$ 10,134	\$ 10,547
Investment return:				
Investment income	—	257	—	257
Net appreciation (realized and unrealized), net	479	1,134	—	1,613
Total investment return	479	1,391	—	1,870
Contributions	—	(11)	1,039	1,028
Transfers	—	(565)	96	(469)
Appropriation of endowment assets for expenditure	—	(228)	—	(228)
Endowment net assets (deficit), ending	\$ (11)	\$ 1,490	\$ 11,269	\$ 12,748

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Permanently Restricted Endowments (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning	\$ (436)	\$ 1,149	\$ 10,088	\$ 10,801
Investment return:				
Investment income	—	223	—	223
Net depreciation (realized and unrealized), net	(54)	(204)	—	(258)
Total investment return	(54)	19	—	(35)
Contributions	—	—	20	20
Transfers	—	(56)	—	(56)
Appropriation of endowment assets for expenditure	—	(209)	26	(183)
Endowment net assets (deficit), ending	\$ (490)	\$ 903	\$ 10,134	\$ 10,547

8. Pension Plans

The Medical Center participates in the Ascension Health Pension Plan (the Ascension Plan), the Ascension Health Defined Contribution Plan (the Defined Contribution Plan), and the Supplemental Defined Benefit Retirement Plan (SERP). Details of these plans are as follows.

Ascension Health Pension Plan

The Medical Center participates in the Ascension Plan, a noncontributory defined benefit pension plan which covers substantially all eligible employees of certain System entities. Benefits cover all eligible employees hired prior to January 1, 2006 and are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Pension Plans (continued)

Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Ascension Plan participants. Net periodic pension (benefit) cost of (\$3,941) and \$8,740 in the years ended September 30, 2012 and 2011, respectively, was charged to the Medical Center. The service cost component of net periodic pension cost charged to the Medical Center is actuarially determined while all other components are allocated based on the Medical Center's pro rata share of Ascension Health's overall projected benefit obligation.

During the year ended September 30, 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects the Ascension Plan, as well as provides an enhanced comprehensive defined contribution plan. These changes will become effective January 1, 2013. These changes resulted in the Medical Center's recognition of a nonrecurring curtailment gain of \$23,626 during the year ended September 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of \$13,765. The projected benefit obligation is included in pension and other postretirement liabilities in the accompanying consolidated balance sheets and transfer (to) from System, parent and affiliated entities, net.

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of September 30, 2012, the Ascension Plan had a net unfunded liability of \$246,280. The Medical Center's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at September 30, 2012 and 2011 was \$8,644 and \$9,182, respectively. As a result of updating the funded status of the Ascension Plan, the Medical Center's allocated share of the Ascension Plan's net funded liability was reduced by \$15,898 and \$27,699 during the years ended September 30, 2012 and 2011, respectively. These transfers are included in transfers (to) from System, parent, and affiliated entities, net, in the accompanying consolidated statements of operations and changes in net assets.

As of September 30, 2012 and 2011, the fair value of the Ascension Plan's assets available for benefits was \$5,984,511 and \$3,794,392, respectively. As discussed in the Fair Value Measurements note, the Medical Center, as well as the System, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of September 30, 2012, 19%, 44% and 37% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 1%,

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Pension Plans (continued)

88% and 11% were categorized as Level 1, Level 2 and Level 3, respectively, as of September 30, 2012. Additionally, as of September 30, 2011, 17%, 48%, and 35% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 5%, 19% and 76% were categorized as Level 1, Level 2 and Level 3, respectively as of September 30, 2011.

Ascension Health Defined Contribution Plan

The Medical Center participates in the Defined Contribution Plan, a contributory and noncontributory, defined contribution plan sponsored by Ascension Health which covers all eligible associates hired after January 1, 2006. There are three primary types of contributions to the Defined Contribution Plan: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and increases over specified periods of employee service. These benefits are funded annually and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period and participants become fully vested in all employer contributions immediately. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was \$3,601 and \$2,929 for the years ended September 30, 2012 and 2011, respectively.

Supplemental Defined Benefit Retirement Plan (SERP)

The Medical Center has a SERP for certain executive and professional employees. The amount recorded in other liabilities as of September 30, 2012 and 2011 was \$1,203 and \$4,663, respectively. In 2012 and 2011, the discount rate used was 4% and 5%, respectively. The SERP is not funded.

Consistent with the redesign of the associate retirement benefits, the SERP was amended to reflect consistency. These changes resulted in the Medical Center's recognition of a non-recurring curtailment gain of \$880 during the year ended September 30, 2012.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Other Postretirement Benefits

In addition to participation in Ascension Health's defined benefit and defined contribution pension plans, the Medical Center sponsors a defined benefit health care plan (Health Plan) for certain employees that provides postretirement medical benefits to those employees who reach the age of 65 and satisfy certain service requirements. The Health Plan limits benefits to only current beneficiaries and current active employees who were at least age 62, with at least 7 years of service as of September 30, 2009.

The plan limits the Medical Center's contribution per employee to twelve hundred dollars per annum. The Health Plan is not funded.

Significant disclosures relating to the Health Plan as of the measurement date (September 30) follow:

	2012	2011
Change in benefit obligation		
Benefit obligation, beginning	\$ (2,698)	\$ (3,173)
Service cost	(3)	(19)
Interest cost	(119)	(151)
Actuarial (losses) gains	(59)	374
Benefits paid	267	271
Benefit obligation, ending	<u>\$ (2,612)</u>	<u>\$ (2,698)</u>
Change in plan assets		
Fair value of plan assets, beginning	\$ —	\$ —
Employer contributions	267	271
Benefits paid	(267)	(271)
Fair value of plan assets, ending	<u>\$ —</u>	<u>\$ —</u>
Funded status	<u>\$ (2,612)</u>	<u>\$ (2,698)</u>
Unrecognized gain	—	—
Unrecognized prior service cost	—	—
Accrued benefit cost	<u>\$ (2,612)</u>	<u>\$ (2,698)</u>

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Other Postretirement Benefits (continued)

	<u>2012</u>	<u>2011</u>
Components of net periodic benefit		
Service cost	\$ 3	\$ 19
Interest cost	119	151
Net amortization and deferral	275	(37)
Net periodic cost	<u>\$ 397</u>	<u>\$ 133</u>
 Assumption		
Discount rate	3.98%	4.64%

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic other postretirement benefit cost:

	<u>2012</u>	<u>2011</u>
Unrecognized prior service credit	\$ —	\$ 8
Unrecognized actuarial gains	403	728
	<u>\$ 403</u>	<u>\$ 736</u>

Changes in benefit obligations recognized in unrestricted net assets during 2012 include:

	<u>September 30</u>	<u>2012</u>	<u>2011</u>
Current year actuarial gains	\$ 59	\$ (374)	
Amortization of actuarial gains	267	27	
Amortization of prior service cost	8	10	
	<u>\$ 334</u>	<u>\$ (337)</u>	

The actuarial gains included in unrestricted net assets and expected to be recognized as a reduction of net periodic cost during the year ending September 30, 2013 are \$197.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Other Postretirement Benefits (continued)

The following benefit payments which reflect expected future service are expected to be paid as follows:

2013	\$ 275
2014	268
2015	255
2016	241
2017	229
2018-2022	954

10. Self-Insurance Programs

The Medical Center participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2012 and 2011. In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

Professional and General Liability Programs

The Medical Center participates in Ascension Health's professional and general liability self-insured program which provides claims-made coverage through a wholly owned on-shore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of \$10,000 per occurrence with no aggregate. The Medical Center has a deductible of \$100 per claim. Excess coverage is provided through AHIL, with limits up to \$185,000. AHIL retains \$5,000 per occurrence and \$5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Self-Insurance Programs (continued)

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of \$4,949 and \$4,596 for the years ended September 30, 2012 and 2011, respectively. Included in current liabilities and long-term self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately \$5,183 and \$4,426 at September 30, 2012 and 2011, respectively.

Workers' Compensation

The Medical Center participates in Ascension Health's workers' compensation program which provides occurrence coverage through a grantor trust. The trust provides coverage up to \$1,000 per occurrence with no aggregate.

On July 1, 2011, the System implemented a \$100 deductible, thereby assuming responsibility for indemnity and expense for each and every claim occurring and reported after that date, up to the deductible amount. The trust provides a mechanism for funding the workers' compensation obligations of its members. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of \$1,582 and \$1,360 for the years ended September 30, 2012 and 2011, respectively. Included in current liabilities on the accompanying consolidated balance sheets are workers' compensation loss reserves of \$852 and \$293 at September 30, 2012 and 2011, respectively.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Lease Commitments

Future minimum payments under noncancellable operating leases with terms of one year or more are as follows:

Year ending September 30:	
2013	\$ 2,887
2014	2,959
2015	2,244
2016	1,766
2017	1,104
Thereafter	3,841
Total	<u>\$ 14,801</u>

Rental expense under operating leases amounted to \$4,389 and \$2,948 for the years ended September 30, 2012 and 2011, respectively.

12. Related-Party Transactions

The Medical Center utilized various centralized programs and overhead services of the System or its other sponsored organizations including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Medical Center for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Medical Center. Allocations are based on relevant metrics such as the Medical Center's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged for these services may not necessarily result in the net costs that would be incurred by the Medical Center on a stand-alone basis. The charges allocated to the Medical Center were approximately \$2,870 and \$2,524 for the years ended September 30, 2012 and 2011, respectively.

In addition to the charges discussed above, the Medical Center made payments to the System of \$6,067 and \$6,243 for the years ended September 30, 2012 and 2011, respectively, representing the Medical Center's share of costs to fund a System-wide information technology and process standardization project that is expected to continue through December 2014. These payments are included in transfers to System, parent, and affiliated entities, net, in the accompanying consolidated statements of operations and changes in net assets.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Related-Party Transactions (continued)

The Medical Center operates consolidated supportive functions, including information management, patient financial services, accounting, payroll, purchasing, dietary, human resources, security, and medical record coding services. For the years ended September 30, 2012 and 2011, the Medical Center charged affiliated entities \$5,124 and \$5,180 for these services, respectively, which have been reported as other operating revenues in the consolidated statements of operations and changes in net assets.

During 2012 and 2011, the Medical Center transferred \$505 and \$511 to the System to fund the Medical Center's allocated portion of an unmet debt obligation of a former member of the obligated group. The System's current intentions are to allocate one additional amount to the Medical Center during 2013. The transfers are included in transfer (to) from System, parent, and affiliated entities, net, on the accompanying consolidated statements of operations and changes in net assets.

In addition, during 2012 the Medical Center transferred \$3,541 to the System to fund its allocated portion of the System for obligations of both the System and several of its members. The transfers are included in transfer (to) from System, parent, and affiliated entities, net, on the accompanying consolidated statements of operations and changes in net assets.

During 2012 and 2011, the Medical Center transferred \$601 and \$923 to the System to fund the Medical Center's allocated portion of cost associated with ministry services provided by Daughters of Charity.

On January 1, 2010, Hall-Brooke transferred both of its behavioral health clinics to the Medical Center. The Medical Center retained Hall-Brooke to manage the clinics during the period from January 1, 2010 through June 30, 2011, when the employees became employees of the Medical Center and Hall-Brooke no longer provided these management services. Management fees paid to Hall-Brooke were approximately \$2,175 for the year ended September 30, 2011.

As partial consideration associated with the transfer of inpatient operations on October 1, 2008, the Medical Center entered into a long-term note agreement with Hall-Brooke; whereby the Medical center agreed to assume the principal and interest payments of Hall-Brooke's outstanding CHEFA Variable Rate Demand Revenue Bonds, Series 1999B (Bonds) as of the date of the transfer. The terms of the note are consistent with the terms of the Bonds and bear no interest or administrative fees, other than the interest costs of the Bonds. The Bonds are subject to a seven-day put provision payable in installments through November 2029 and interest is

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Related-Party Transactions (continued)

set at the prevailing market rate (1.55% at September 30, 2012). Hall-Brooke is in the process of legally transferring its obligation under the Bonds directly to the Medical Center, however, Hall-Brooke remains the obligated party at September 30, 2012. The note will be considered fully satisfied when Hall-Brooke's legal obligation under the Bonds is successfully transferred to the Medical Center.

Scheduled principal payments on the note are as follows:

Year ending September 30:	
2013	\$ 438
2014	438
2015	472
2016	472
2017	506
Thereafter	8,427
Total	<u>\$ 10,753</u>

Interest paid on the note payable was \$389 and \$426 for the years ended September 30, 2012 and 2011, respectively.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2012	2011
Health care services	\$ 2,998	\$ 2,325
Education and training	2,545	1,725
Capital	4,587	4,937
Other	2,639	2,549
	<u>\$ 12,769</u>	<u>\$ 11,536</u>

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

13. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are to be held in perpetuity, the income from which is used for temporarily restricted Medical Center activities and expendable for the following purposes:

	September 30	
	2012	2011
Health care services	\$ 7,104	\$ 5,977
Education	1,930	1,928
Capital	1,393	1,393
Other	842	836
	<u>\$ 11,269</u>	<u>\$ 10,134</u>

14. Contingencies and Commitments

In addition to professional liability claims, the Medical Center is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without a material adverse effect on the Medical Center's consolidated balance sheets.

In January 2006, the Medical Center, AHIL, and an insurance provider entered into an agreement to provide professional liability insurance for community physicians. The agreement stipulates that future actuarial gains and losses will be solely the responsibility of the Medical Center. As of September 30, 2012 and 2011, such gains and losses cannot be determined. Management expects any related adjustment will not have a material adverse effect on the Medical Center's consolidated financial position.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, the Medical Center will be reviewing applicable medical records for response to the DOJ. The DOJ's investigation spans a time frame beginning in 2004 and extending through the present time. Through January 28, 2013, the DOJ has not asserted any claims against the Medical Center. Ascension Health and the Medical Center continue to fully cooperate with the DOJ in its investigation.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

Board of Directors
The St. Vincent's Medical Center
Bridgeport, Connecticut

We have audited the consolidated financial statements of The St. Vincent's Medical Center (the Medical Center) as of and for the year ended September 30, 2012, and have issued our report thereon dated January 28, 2013 which contained an unqualified opinion on those financial statements. The financial statements of The St. Vincent's College, Inc. (the College), a wholly-owned subsidiary, were audited by other auditors. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, consolidating statement of operations and changes in unrestricted net assets, and the schedule of net cost of providing care of persons living in poverty and community benefit programs are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

January 28, 2013

The St. Vincent's Medical Center

Consolidating Balance Sheet

September 30, 2012
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Consolidated The St. Vincent's Medical Center
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,388	\$ 371	\$ 236	\$ 4,995
Interest in investments held by Ascension Health Alliance	14,580	1,723	1,720	18,023
Accounts receivable, less allowances for uncollectible accounts of \$26,426	51,340	3,106	—	54,446
Advances to (from) parent and affiliated entities, net	7,676	(2,854)	(18)	4,804
Inventories and other	6,742	290	1,746	8,778
Total current assets	84,726	2,636	3,684	91,046
Interest in investments held by Ascension Health Alliance	312,210	—	8,689	320,899
Board-designated investments and assets limited as to use:				
Temporarily restricted	214	—	94	308
Temporarily restricted Interest in the St. Vincent's Medical Center Foundation, Inc.	10,356	—	2,105	12,461
Permanently restricted	68	—	—	68
Permanently restricted Interest in the St. Vincent's Medical Center Foundation, Inc.	9,466	—	1,735	11,201
Total board-designated investments and assets limited as to use	20,104	—	3,934	24,038
Unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	—	—	312	312
Property and equipment:				
Land and improvements	7,832	—	—	7,832
Buildings and equipment	413,518	1,441	964	415,923
Construction in progress	117	76	—	193
Less accumulated depreciation	(218,139)	(132)	(759)	(219,030)
Total property and equipment, net	203,328	1,385	205	204,918
Other assets	18,273	623	7	18,903
Total assets	\$ 638,641	\$ 4,644	\$ 16,831	\$ 660,116

The St. Vincent's Medical Center
Consolidating Balance Sheet (continued)

September 30, 2012
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Consolidated The St. Vincent's Medical Center
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 52,913	\$ 4,363	\$ 4,216	\$ 61,492
Current portion of long-term debt	998	—	—	998
Current portion of note payable, other	—	1,075	—	1,075
Current portion of note payable, affiliate	438	—	—	438
Estimated third-party payor settlements	12,000	—	—	12,000
Total current liabilities	66,349	5,438	4,216	76,003
Noncurrent liabilities:				
Long-term debt	46,911	—	—	46,911
Pension and other postretirement liabilities	9,964	604	688	11,256
Self-insurance liabilities	2,466	771	—	3,237
Note payable, other	—	1,075	—	1,075
Note payable, affiliate	10,315	—	—	10,315
Other	7,352	—	—	7,352
Total noncurrent liabilities	77,008	2,450	688	80,146
Total liabilities	143,357	7,888	4,904	156,149
Net assets (deficit):				
Unrestricted	475,180	(3,244)	7,993	479,929
Temporarily restricted	10,570	—	2,199	12,769
Permanently restricted	9,534	—	1,735	11,269
Total net assets (deficit)	495,284	(3,244)	11,927	503,967
Total liabilities and net assets	\$ 638,641	\$ 4,644	\$ 16,831	\$ 660,116

The St. Vincent's Medical Center

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year Ended September 30, 2012

(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Eliminations	Consolidated The St. Vincent's Medical Center
Operating revenues:					
Net patient service revenue	\$ 424,565	\$ 17,527	\$ —	\$ —	\$ 442,092
Other revenue	12,640	24,428	6,349	(25,837)	17,580
Net assets released from restrictions for operations	282	—	999	—	1,281
Total operating revenues	437,487	41,955	7,348	(25,837)	460,953
Operating expenses:					
Salaries and wages	154,980	30,461	4,038	—	189,479
Employee benefits	40,406	4,027	936	—	45,369
Purchased services	58,958	3,086	398	(25,704)	36,738
Professional fees	8,312	2,592	141	—	11,045
Supplies	54,965	421	143	—	55,529
Insurance	3,919	1,716	4	—	5,639
Bad debts	27,411	1,938	—	—	29,349
Interest	2,149	—	—	—	2,149
Depreciation and amortization	22,796	127	49	—	22,972
Other	23,123	2,573	570	(133)	26,133
Total operating expenses before curtailment gain and impairment loss, net	397,019	46,941	6,279	(25,837)	424,402
Income (loss) from operations before curtailment gain and impairment loss, net	40,468	(4,986)	1,069	—	36,551
Curtailment gain and impairment loss, net	23,418	701	44	—	24,163
Income (loss) from operations	63,886	(4,285)	1,113	—	60,714
Non-operating gains (losses):					
Investment gains, net	23,843	9	661	—	24,513
Other	(619)	—	650	—	31
Total non-operating gains, net	23,224	9	1,311	—	24,544
Excess (deficiency) of revenues and gains over expenses and losses	87,110	(4,276)	2,424	—	85,258
Transfers (to) from System, parent, and affiliated entities, net	(21,759)	9,264	(353)	—	(12,848)
Net assets released from restrictions for property acquisitions	3,846	—	23	—	3,869
Pension and other post-retirement liability adjustments	(21,424)	(717)	(44)	—	(22,185)
Increase in unrestricted net assets	47,773	4,271	2,050	—	54,094
Unrestricted net assets, beginning	427,407	(7,515)	5,943	—	425,835
Unrestricted net assets, ending	\$ 475,180	\$ (3,244)	\$ 7,993	\$ —	\$ 479,929

The St. Vincent's Medical Center

Schedule of Net Cost of Providing Care of Persons
Living in Poverty and Community Benefit Programs

Year Ended September 30, 2012
(Dollars in Thousands)

The net cost to the Medical Center, excluding the provision for bad debt expense, of providing care of persons living in poverty and community benefit programs is as follows:

Traditional charity care provided	\$ 5,060
Unpaid cost of public programs for persons living in poverty	13,923
Other programs for persons living in poverty and other vulnerable persons	3,537
Community benefit programs	<u>7,212</u>
Care of persons living in poverty and community benefit programs	<u>\$ 29,732</u>

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